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TAGS: ECON NI
SUBJECT: NIGERIA ECONOMIC TIDBITS, JANUARY 2005

Reftel: Lagos 1611

¶1. (U) This economic update includes:
-- Banking Reform Effort Drives Industry Change
-- Power Sector Reform Bill Signed
-- Recharge Card Import Ban Target Date Extended
-- A Nigerian Success Story: Expanding Cassava Operations

Banking Reform Effort Drives Industry Change

¶2. (U) Since the July 6 Central Bank of Nigeria (CBN) announcement of banking sector reforms requiring banks to have a 25 billion naira minimum capital base by December 2005, banks have been busy formulating strategies to meet this goal. With the exception of approximately ten of the largest banks, most banks will have to merge with others to meet the CBN requirement. Investment Bank and Trade Corporation (IBTC) Head of Trade Finance, Oluwande Muoyo, stated that most merger candidates are in the partner identification phase. She added, given that there is only one year left to comply with CBN requirements, one might expect banks to be moving into the operational reorganization phase. However, to ensure safe, strong banks emerge from this process, management needs time for thorough due diligence on potential partners. Most banks are still in the throes of this process.

¶3. (U) Soon after the CBN announcement, a handful of banks quickly identified merger partners, and publicly announced their plans. Yet rumors are beginning to emerge that at least one of these agreements will fall through in the coming months. While banking stocks listed on the Nigerian Stock Exchange have been heavily traded during the last few months, the banks' overall stock prices are in decline. Industry observers are still positive about the CBN directive, believing the changes will lead to a stronger Nigerian banking sector. Yet uncertainty continues to be the word of the day when it comes to the banking sector in Nigeria. Banks formal consolidation plans were due to the CBN on Friday, January 7. Post will report on the continued banking reform process as those plans are made publicly available.

Power Sector Reform Bill Signed

¶4. (U) On December 20, President Obasanjo signed into law a long-awaited power sector reform bill. The bill, heralded as a major tool in rehabilitating Nigeria's ailing power sector, had been pending in the National Assembly since President Obasanjo's first term. The power sector reform bill is expected to create a power sector regulatory agency to foster and oversee an enabling environment for private sector participation in the sector.

¶5. (U) Media reaction to the signing of the bill was mostly positive. The law promises to break the monopoly currently enjoyed by the Nigerian Electric Power Authority (NEPA), the state-owned power company, which has utterly failed to deliver reliable electricity supplies. Nigerians hope the law will pave the way for the entrance of experienced private sector power providers to deliver efficient and constant electricity to residencies and industries. However, it is not clear if Nigerians are able or willing to pay the higher tariffs such private sector operators are likely to charge. (Comment: In 2004, NEPA generated 4,000 MW, though President Obasanjo recently said 10,000 MW was needed to meet average national demand. The need for private investment in the sector to meet bourgeoning demand is enormous. Details that emerge over the next few months regarding the new power sector regulatory body will play a large role in determining

the private sector's willingness to invest in this now crippled sector. End comment.)

Recharge Card Import Ban Target Date Extended

¶6. (U) Telecom recharge cards can be imported into Nigeria until March 31, 2005, the Nigerian Ministry of Communications (MOC) recently announced. An import ban on the cards was set to take effect January 1, 2005, but MOC officials moved the date back, as functioning local recharge card production facilities do not yet exist. The MOC expects eight total production facilities to be operational by the March 31 deadline. (Comment: We expect some recharge card production in Nigeria will be possible by March 31, but it is doubtful that sufficient high-quality production capability will be functional by then. A card scarcity situation may arise, as it did June 2004 (reftel). End comment.)

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A Nigerian Success Story: Expanding Cassava Operations
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¶7. (SBU) Chris Okeke is a partner in one of the largest private law firms in Nigeria; he is also the proud owner of 6000 hectares of cassava farms in four Nigerian states, including Delta and Kwara States. Okeke sees his agricultural philosophy as the true path to sustainable development in Nigeria -- based on hard work, investment in the land, and self-reliance. Okeke has never received assistance from sources such as USAID or other aid agencies. Starting with 150 hectares of land left to him by his father, Okeke built two cassava processing plants. He soon realized cassava supply was problematic, and has since focused on vertical integration, buying the land needed to guarantee an uninterrupted supply of cassava to his factories. He is now purchasing land in Oyo State, and expects to fully supply his processing facilities within the next two to three years.

¶8. (SBU) Okeke views numerous business problems endemic to Nigeria as challenges to resolve using logic. When faced with numerous "area boys" demanding money, he has trained and employed them on his farms. His goal is to reach profitability in the processing facilities, and then sell off sixty percent of farmland from which he sources his cassava to farmers he has trained over the last few years. Okeke believes offering the farmers a reliable income will allow his plans to succeed, and this type of investment is the only way for the Nigerian agricultural sector to get back on its feet. (Comment: Okeke's initiative is notable, but not widely known. We will periodically report on other similar success stories, which demonstrate Nigerian entrepreneurs working towards reviving the country's economy, and diversifying its revenues beyond petroleum-based sources. End comment.)

Kramer